



**City of
Portland, Oregon**
Bureau of Development Services
FROM CONCEPT TO CONSTRUCTION

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BDS Financial Advisory Committee
Meeting Notes
Wednesday, January 7, 2015

Committee Members Present

Phil Damiano, Development Review Advisory Committee
Justin Douglas, Portland Development Commission
Eric Hovee, E.D. Hovee & Co.
Jerry Johnson, Johnson Economics
Mike Wilkerson, ECONorthwest

City Staff Present

Rebecca Esau, BDS
Mark Feters, BDS
Kara Fioravanti, BDS
Elshad Hajiyev, BDS
Josh Harwood, City Budget Office
Doug Le, City Budget Office
Dora Perry, Commissioner Fritz's Office
Andy Peterson, BDS
Paul Scarlett, BDS
Deborah Sievert Morris, BDS

Guests Present: None

Committee Members Absent

Kimberly Branam, Deputy Director, PDC
Lorelei J. Juntunen, ECONorthwest
Keith Skille, GBD Architects

Handouts

- 1/7/15 Meeting Notes
- Non-Cumulative Cost Recovery Report
- Econometric Models
- Preliminary Programmatic Growth Rates
- Alternative Scenario Options

Welcome & Introductions / Meeting Overview

BDS Director Paul Scarlett welcomed Finance Committee members and City staff. He noted the importance of the Committee's input on BDS's financial projections and thanked Committee members for their work.

BDS Finance Manager Elshad Hajiyev reviewed the meeting agenda.

FY 2013-14 Revenues and Current Cost Recovery

Mr. Hajiyev introduced BDS Financial Analyst Kyle O'Brien, who gave an overview of BDS's current financial status and reviewed the handout *Non-Cumulative Cost Recovery Report*.

Projections and Changes in Model

Mr. Hajiyev gave an overview of BDS's financial forecasting process. 11 new models were selected this year. In the past, the bureau forecasted revenue streams, but now forecasts permit numbers and valuation. Permit valuation was selected because it is not affected by fee increases and thus provides a cleaner data set than permit revenues.

Electrical, plumbing, and mechanical permit values are based on the number of fixtures being installed, rather than the valuation of the work. Forecasts for these programs is based on the numbers of permits from previous years. Plumbing modeling was very challenging – it is the bureau's most volatile program.

The models indicate that the next couple years will be steady, with a slight correction in the following few years. The correction should be within normal parameters of +2% to -2%. For context, BDS revenues are now at record high levels. The correction may impact some programs more than others, particularly those that are closer to cost recovery.

Last year's 5-Year Financial Plan incorporated the projected correction into the bureau's reserve projections. Mr. Hajiyev stressed that the projections are draft, and the bureau is looking for Committee members' feedback.

Preliminary 5-Year Revenue Growth Rates

Mr. O'Brien reviewed the handout *Econometric Models* and discussed the details of the models with Committee members. Committee members expressed concerns that using data from recent years will not be as predictive of a future decrease. They suggested that the analysis needs to focus more on leading indicators, rather than lagging ones. Committee member Josh Harwood mentioned the difference between the City of Portland and the larger metro area. He agreed with the use of metro area employment figures, but there are differences that need to be accounted for. Mr. O'Brien said that Construction employment is used heavily because of its high correlation with BDS permit revenues.

Mr. Hajiyev said that there are two issues with leading indicators: first, there are no projections available for them. Second, any error that Moody's makes will be brought into BDS's projections. The bureau is working with the best data it can get at this point.

Mr. Harwood said that BDS may need to take more ownership of the variables, not just say that Moody's was wrong. Mr. Hajiyev said the bureau already does this, adjusting the forecast based on other information such as knowledge of upcoming major construction projects. He looks at growth rates as an overall trend, and then adds in the other information.

Mr. Hajiyev noted that all four models are used to develop growth rates. There is no forecast available for vacancy and a few other rates; they came up with their own forecasts based on long-term averages.

Accurately forecasting building program revenues is the most important, due to the size of the revenues and the fact that some fees collected under building permits go to other groups such as Land Use Services.

Mr. Hajiyev revisited the discussion on leading indicators, and asked for suggestions on which indicators to use and where to find data. Mr. Johnson said that BDS's projections rely heavily on Moody's; Mr. Hajiyev replied that in the past he relied more on the State's projections, which proved to be inaccurate.

Mr. Hajiyev said the four models selected were the most likely of the 71 models they developed. Committee member Mike Wilkerson noted that unemployment correlates positively with revenues but negatively with permits.

Mr. Hajiyev reviewed the handout *Preliminary Programmatic Growth Rates*. Committee member Eric Hovee noted that the model projects higher growth rates for plumbing at the end of the 5-year cycle; Mr. Hajiyev noted the unpredictability of plumbing revenues.

Mr. Scarlett noted the relationship between revenues, reserves, staffing, workload, service levels, and fees, and expressed confidence that the projected correction will not necessitate major staffing adjustments. The bureau did not increase fees last year and does not anticipate increasing fees in FY 2015-16, other than Environmental Soils.

Mr. Hajiyev asked for continued feedback from Committee members on the models, and encouraged them to email him or Mr. O'Brien over the next week with any input. Committee members indicated that they were comfortable with the overall trend predicted by the models.

Alternative (Worst) Case Scenario

Mr. Hajiyev reviewed the handout *Alternative Scenario Options*, and said that they have tentatively chosen scenario S7 for the worst case scenario. Mr. Hovee suggested S6 or S3 as possibilities as well. They discussed possibly taking a percentage off the base case scenario and using that for worst case. Members also discussed incorporating the City's competitiveness with other jurisdictions for development.

Doug Le (City Budget Office) asked about staff growth and whether there will be a stopping point to adding staff. Mr. Scarlett discussed the economic and political factors affecting staff growth, and indicated that there will be a stopping point. Mr. Hajiyev added that before BDS adds a staff position, it first runs the models to assure that sufficient funds will be available to support the position for 5 years.

Adjourn

Mr. Scarlett again thanked Committee members for their input. Dora Perry (Comm. Fritz's Office) expressed her and the Commissioner's appreciation for the time and effort put in by Committee members.

BDS will submit its Requested Budget and 5-Year Financial Plan on February 2nd. Mr. Hajiyev said he will schedule another Committee meeting in 2-3 weeks. He encouraged Committee members to send input and feedback in the meantime.

Meeting notes prepared by Mark Feters, BDS